



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

MANPOWER AND WELFARE
DIVISION

May 9, 1972



Dear Mr. Twiname:

At the request of the Chairman, Subcommittee on Long-Term Care, Senate Special Committee on Aging, we obtained information on prescribed drugs provided to recipients of old-age assistance in nursing homes under the Medicaid program in Illinois, New Jersey, and Ohio. In response, we issued a report to the Chairman on information obtained on the Medicaid drug program in Illinois (B-164031(3), dated September 10, 1971) and a consolidated report on all three States entitled "Drugs provided to elderly persons in nursing homes under the Medicaid program" (B-164031(3), dated January 5, 1972). These reports have been made public by the Chairman and copies have been furnished to officials of the Social and Rehabilitation Service (SRS) and to officials of the Department of Health, Education, and Welfare (HEW).

This letter report presents our views concerning the need for SRS to issue instructions to States which would implement the Department's policy relating to the payment for purchases of ineffective and possibly effective drugs under the Medicaid program.

INTRODUCTION

On December 11, 1970, the Surgeon General directed HEW agencies to establish the necessary procedures within 45 days to implement departmental policy prohibiting the use of Federal funds for the purchase of drug products classified as ineffective and possibly effective by the Food and Drug Administration (FDA). This policy was applicable to HEW's direct care programs, contract-care programs under its direct care programs, grant programs, and the Medicaid and Medicare programs.

In January 1971, the Medical Services Administration (MSA) of SRS notified all Associate Regional Commissioners for Medical Services of the departmental policy relating to purchases of ineffective and possibly effective drugs. MSA stated that program regulations were being amended to implement this policy for Medicaid. The Commissioners were instructed to notify Medicaid State agencies as soon as possible of the change in Federal policy so that they in turn could notify hospitals, nursing homes, pharmacies, physicians,

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dentists, and any other providers of drugs, and begin making the necessary changes in drug formularies, drug purchasing guides and drug claims payment processes.

As of May 1, 1972, regulations have not been issued to implement the revised Federal drug policy for Medicaid.

SUBSTANTIAL FUNDS BEING EXPENDED
UNDER MEDICAID FOR INEFFECTIVE
AND POSSIBLY EFFECTIVE DRUGS

Officials who administer the Medicaid drug programs in Illinois, New Jersey, and Ohio, furnished us with computer printouts listing purchases by drug name, number of prescriptions, and amount paid during the first month of each quarter of calendar year 1970. We compared this information to FDA's November 1970 listing^{1/} of drugs classified as ineffective and found the following.

--In Ohio about \$196,000 was expended in January, April, July, and October for about 38,000 prescriptions for 106 drugs classified as ineffective.

--In Illinois and New Jersey about \$99,000 was expended in July and October for about 21,000 prescriptions for 16 drugs classified as ineffective.

Although our identification of purchases of ineffective drugs was limited to these three States, similar conditions probably exist in other States. For example, the Mississippi Medicaid Commission--the single State agency administering the program--reported that in a study of drug usage from July 1, 1970, to February 19, 1971, about \$89,000 was expended for about 22,000 prescriptions for three drugs classified as either ineffective (two drugs) and possibly effective (one drug).

State officials in Illinois, New Jersey, and Ohio informed us that they would continue to pay for such drugs until HEW notifies them that such drugs are no longer eligible under Medicaid. These officials further informed us that their States were not in a position to determine drug efficacy and if they were to declare such drugs not eligible for Medicaid they would be subject to strong criticism from pharmaceutical manufacturers.

^{1/}We did not compare this information to FDA's October 1970 listing of drugs classified as possibly effective; however, as discussed above, expenditures were made under Mississippi's Medicaid program for the purchase of drugs classified as possibly effective.

For calendar year 1970, Illinois, New Jersey, and Ohio reported drug expenditures under their Medicaid programs of about \$50 million, of which about \$25 million, or 50 percent, represented the Federal share. These expenditures accounted for about 12 percent of the total \$425 million expended nationwide for drugs under Medicaid for calendar year 1970.

As discussed above, Ohio expended about \$196,000 for ineffective drugs during January, April, July, and October 1970--an average of \$49,000 a month. If these monthly expenditures for ineffective drugs were representative of the entire calendar year, then as much as \$588,000 could have been expended in Ohio for these drugs during 1970. Considering the large amount of expenditures for Medicaid drugs during 1970--\$425 million--and the probability that other States are purchasing ineffective and possibly effective drugs under their Medicaid programs, then nationwide expenditures for such drugs purchased under Medicaid could be substantial.

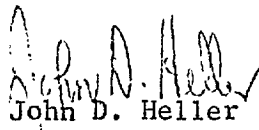
RECOMMENDATION TO THE ADMINISTRATOR,
SOCIAL AND REHABILITATION SERVICE

Because of the substantial amounts expended for drugs under the Medicaid program--and the probability that a significant portion of these expenditures are being made for ineffective and possibly effective drugs--we recommend that SRS issue, without further delay, regulations to preclude the purchase of ineffective and possibly effective drugs under Medicaid.

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We shall appreciate receiving your comments and advice as to any actions taken or planned with respect to our recommendation.

Sincerely yours,


John D. Heller
Associate Director

Mr. John D. Twiname, Administrator
Social and Rehabilitation Service
Department of Health, Education,
and Welfare